**Robbinsdale Area Schools**
**FINANCIAL ADVISORY COUNCIL (FAC)**
**MINUTES FOR February 17, 2022**
**APPROVED March 29, 2022**

| Present | FAC Members |
|---|---|
| X | Lennie Kaufman, Chair |
| X | Walter Gray |
| X | Earl Hoffman |
| X | Greg Kugler |
| X | O. Barry Rogers |
| X | Howard Schwartz |
| X | Terry Swanson |
| | **School Board Member** |
| X | John Vento, Treasurer |
| | **District 281 Staff** |
| X | David Engstrom, Superintendent |
| X | Ukee Dozier, Executive Director of Finance |
| X | Virginia Verbrugge, Assistant Director of Finance |
| X | Beth Tomlinson, Controller |
| X | Karylanne Marchand, Business Office Manager |
| | **MMKR** |
| X | Bill Lauer |
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**Agenda Item 1: Welcome and Introductions:**
Chair Lennie Kaufman called the meeting to order at 6:33PM, with the FAC members and others noted above in attendance. The meeting was held via Zoom. Mr. Kaufman opened the meeting by welcoming the attendees.

**Agenda Item 2: Acceptance of Agenda:**
The agenda had been distributed to the members prior to the meeting. A motion was properly made and seconded to accept the distributed agenda as amended. The motion passed unanimously.

**Agenda Item 3: Approve the Minutes of FAC meetings on January 11, 2022:**
The minutes had been distributed to the members prior to the meeting. A motion was properly made and seconded to accept the minutes. The motion passed unanimously.

**Agenda Item 4: Review of Auditor's Report for Year Ending June 30, 2021 (FY21):** Bill Lauer of MMKR discussed the audit that his firm conducted. He reviewed the auditor's role and mentioned that there are actually three audit reports: Annual Comprehensive Financial Report (ACFR), the Federal Single Audit, and the Management Report. He also reviewed the State of Minnesota laws and regulations. There were no issues with financial reporting and only one concern in the area of internal controls relating to timeliness of reporting. He said that there was an issue in the audit regarding timely payment of claims, filing the unclaimed property report, and an issue in the federal audit regarding a claim for reimbursement of items outside of the time window for such claims. He said that the District corrected all audit deficiencies noted in the FY20 audit.

Mr. Lauer reviewed high-level fiscal information from the audit. He noted the large decrease in pupil units and average daily members (ADMs) from FY20 to FY21 but also said that other districts also experienced decreases, as students moved to home, charter, or private schools, or parents held back kindergarteners during the pandemic. Mr. Schwartz asked if there are any breakdowns of the decrease and how the District's decline compared with that of other districts. Mr. Lauer observed that our percentage drop was at the higher end of other districts he works with.

Mr. Lauer reviewed the various fund balances at 6/30/2021. The total fund balance stands at $19.1 million (M), up from $8.2M a year earlier. The unassigned fund balance stands at $7.5M, up from $0.6M a year earlier. General fund revenue received from the federal government was up substantially in FY21, due to ESSER (federal COVID relief) funding. On the expenditure side, salaries were below budget, but purchased services exceeded budget, primarily due to special education and technology for distance learning.

Mr. Schwartz asked if the District is covering any expense items with ESSER funds that will continue once ESSER is gone. Mr. Lauer was not sure what, if any, items would be in this category.

The food service fund balance showed a large increase, due to federal funding with higher meal reimbursement rates. Food service revenue was $2.2M in FY21, versus $1.1M in FY20. With the federal government funding meal purchases, no additional uncollectible receivables are being generated.

Community service revenue was up substantially in FY21, to $1.5M versus $1.0M in FY20. The self-insured dental fund showed little change in FY21, but the self-insured medical fund balance improved to ($0.3M), as compared to ($0.7M) at 6/30/2020. The District used $1M of federal relief funds to cover COVID-related medical claims.

The District's overall financial position at 6/20/2021 was ($34.6M). This includes ($171.6M) for the District's proportionate share of the statewide PERA and TRA pension net liability. Mr. Lauer said that the rate at which future payments are discounted has a big impact on this liability. That rate is now 7.5%, which some observers criticize as being too high (a higher discount rate lowers the liability). Larger employer contributions will phase in over the next five years, but as Mr. Schwartz pointed out, retirees also agreed to lower annual percentage benefit increases.

The District's overall financial position improved by $7.5M during FY21, even though the District's share of the statewide PERA/TRA net pension liability increased by $6.0M.

Mr. Hoffman asked why the District's sites and building costs are 48% above the average for metro districts. Mr. Lauer said that the District's buildings, most of which were built in the 1950s and 1960s, are older than those of other districts and therefore require more maintenance. Mr. Kaufman commented that this situation has been true for a number of years.

**<u>Agenda Item 5: Long-term planning process:</u>**

Mr. Dozier presented the software tool that the District will be using to project its future enrollment, revenue, expenditures, and financial positions, and he showed his preliminary projection. He stressed that this planning is a work in progress and that he's looking to the FAC to help guide assumptions, decisions, and communications to residents of the District.

In his model, Mr. Dozier assumed that enrollment drops to 9,609 by FY27, a 13% decline from FY22. He showed the projected enrollment by grade and FY. Mr. Schwartz noted that the enrollments by grade and year don't follow—i.e., enrollment in grade x in year t should be reasonably close to enrollment in grade x+1 in year t+1. Mr. Schwartz said that, while the elementary projection is fairly stable, the secondary enrollment projection shows large decreases. Mr. Dozier said that the projection is meant to be fairly conservative. Mr. Gray pointed out that any model is based on past history and will change over time, as actual experience affects future projections.

The model assumes that the basic state aid formula will increase by 2% per year. The model also assumes that the referendum levy ends in FY27 and the technology levy ends in FY25. These levies have a major impact on the projection. For example, the technology levy is projected to generate $5.8M in FY25. Mr. Dozier showed projections with no new levies that replace the expiring ones, and he raised the question of whether the District will need to ask residents for extensions of these levies.

Mr. Kaufman asked if FY22 is coming in as it was originally projected. Mr. Dozier said that the actuals are pretty close to the projection.

Other assumptions now in the model are:

- Teachers' salaries increase by 2.0% to 1.5% per year, in addition to step and lane increases. Including steps and lanes, teacher salaries increase by 3.71% in FY22, grading to 2.42% in FY27.

- Other salaries and wages increase by 2% per year.

- Health, dental, and long-term disability (LTD) insurance costs increase by 1% per year.

- PERA and TRA costs are 7.5% of payroll.

Mr. Hoffman said that the medical and dental cost increase assumption looks low, and that the

LTD cost increase assumption should be about the same as the salary increases. He suggested that Mr. Dozier talk with the District's benefit consultant regarding these assumptions.

Mr. Dozier showed the type of reporting and projections that the model is able to produce, both text and graphs. For example, if the model projects a fund balance decrease, it also provides an explanation for the decrease.

Mr. Dozier stressed that the model now assumes no referendum revenue when the current referenda levies expire. He pointed out that, as referendum levies end in FY25 and FY27, the unassigned fund balance goes from its current positive position to a large negative position. If the District can pass a new referendum levy that continues the revenue from the expiring levies, then the unassigned fund balance still drops to ($28.2M) by FY27, mainly due to declining enrollment and increasing expenses.

Mr. Dozier stressed that the FAC, Board, and District staff need to have conversations about what steps need to be taken, such as closing buildings or reducing staff. He is looking for the FAC to help make recommendations and to communicate to District residents about the choices the District faces and the decisions that it needs to make to avoid deficits and achieve the Board-approved goal of a minimum unassigned fund balance of 6.5% of annual expenditures.

Mr. Hoffman asked if the projection factors in staff reductions that might occur if enrollment drops. Mr. Dozier said that he did reflect this, but that the model also assumes salary increases and maintenance of students-to-staff ratios. Mr. Gray said that the model really shows what the District must do to avoid future deficits. The big items to improve the District's financial position after FY23 are, in Mr. Dozier's view:

- How can we optimize staffing?
- How can we change school operations, especially looking at the number of schools?
- How can we increase enrollment?

**<u>Agenda Item 6: Future Meeting Dates, Other Items, and Adjournment:</u>**
The next FAC meeting will be March 29, 2022 at 6:30 PM. Mr. Kaufman noted that the FAC will make its annual presentation to the Board on June 7, 2022.

After a proper motion was made and seconded to adjourn, the meeting was adjourned at 8:26 PM.

**Minutes submitted by Earl Hoffman**